

**TERRIL
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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TERRIL COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2005 Election)

Larry Flaherty	President	2007
Galen Chicoine	Vice President	2005
Jodi Oleson		2006
Amy Woodruff		2005
Craig VenEhwegan		2006

(After September, 2005 Election)

Larry Flaherty	President	2007
Galen Chicoine	Vice President	2008
Jodi Oleson		2006
Craig VenEhwegan		2006
Tim Roth		2007

SCHOOL OFFICIALS

Dan Mart	Superintendent
Karen Oleson	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Terril Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Terril Community School District, Terril, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Terril Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 3, 2007 on our consideration of Terril Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 31 thru 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Terril Community School District's basic financial statements. The financial statements for the three years ended June 30, 2005 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

January 3, 2007

TERRIL COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Terril Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$1,713,093 in fiscal 2005 to \$2,059,599 in fiscal 2006, while General Fund expenditures increased from \$1,842,354 in fiscal year 2005 to \$2,059,429 in fiscal 2006.
- The increase in revenues expenditures was due primarily to the sharing program with Graettinger. It is hoped that the sharing agreement will lead to significant cost savings without reducing educational opportunities.
- The District collects School Infrastructure Local Option Sales Tax from all counties. Due to this source of revenue, the District no longer levies the Physical Plant and Equipment Levy.
- All of the District's governmental funds showed small increases in fund balances. This is a direct contrast to the prior year where all governmental funds showed deficits.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Terril Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Terril Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Terril Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Terril Community School District

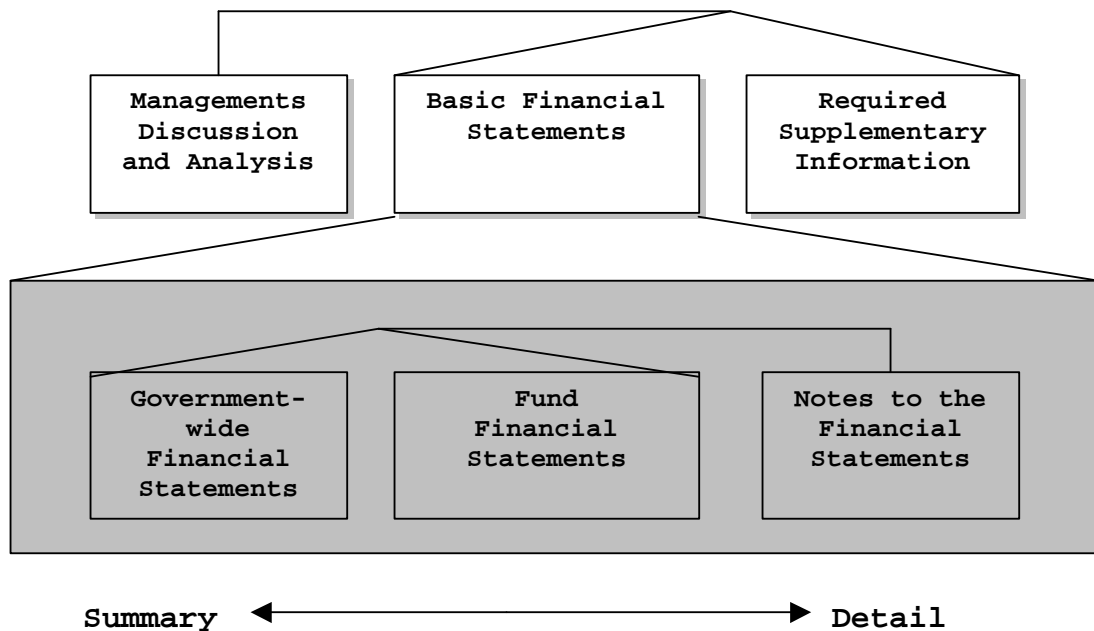


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses; food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

The required financial statements for proprietary funds include a statement of revenues, expenses, changes in net assets and a statement of cash flows.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Agency Fund - The District accounts for funds held in a custodial capacity.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental Activities		Business Type Activities		Total School District		Percentage Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Current assets	1,469	1,251	2	4	1,471	1,255	17.21%
Capital assets	1,515	1,496	1	1	1,516	1,497	1.27%
Total assets	<u>2,984</u>	<u>2,747</u>	<u>3</u>	<u>5</u>	<u>2,987</u>	<u>2,752</u>	<u>8.54%</u>
Current liabilities	968	852	-	-	968	852	13.62%
Non-current liabilities	178	165	-	-	178	165	0.00%
Total liabilities	<u>1,146</u>	<u>1,017</u>	<u>-</u>	<u>-</u>	<u>1,146</u>	<u>1,017</u>	<u>12.68%</u>
Net Assets							
Invested in capital assets, net of related debt	1,515	1,496	1	1	1,516	1,497	1.27%
Restricted	215	157	-	-	215	157	36.94%
Unrestricted	108	77	2	4	110	81	35.80%
Total net assets	<u>1,838</u>	<u>1,730</u>	<u>3</u>	<u>5</u>	<u>1,841</u>	<u>1,735</u>	<u>6.11%</u>

The District's combined net assets increased by over 6%, or approximately \$86,000 over the prior year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$29,000 or 36%.

Changes in net assets - figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
	\$	\$	\$	\$	\$	\$	%
Revenues:							
Program revenues:							
Charges for service and sales	317	144	43	76	360	220	63.64%
Operating grants, contributions and restricted interest	251	212	44	57	295	269	9.67%
General revenues:							
Property and income surtaxes	857	737	-	-	857	737	16.28%
Local option sales tax	151	298	-	-	151	298	-49.33%
Unrestricted state grants	662	663	-	-	662	663	-0.15%
Unrestricted investment earnings	15	15	-	-	15	15	0.00%
Other	135	20	-	-	135	20	575.00%
Total revenues	<u>2,388</u>	<u>2,089</u>	<u>87</u>	<u>133</u>	<u>2,475</u>	<u>2,222</u>	<u>11.39%</u>
Program expenses:							
Governmental activities:							
Instruction	1,552	1,405	-	-	1,552	1,405	10.46%
Support Services	451	615	-	-	451	615	-26.67%
Non-instructional programs	10	29	88	127	98	156	-37.18%
Other expenses	267	84	-	-	267	84	217.86%
Total expenses	<u>2,280</u>	<u>2,133</u>	<u>88</u>	<u>127</u>	<u>2,368</u>	<u>2,260</u>	<u>4.78%</u>
Change in net assets	<u>108</u>	<u>(44)</u>	<u>(1)</u>	<u>6</u>	<u>107</u>	<u>(38)</u>	<u>-381.58%</u>

Property tax and unrestricted state grants account for 61% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,387,999 and expenses were \$2,279,579.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities
(expressed in thousands)

	Total Cost of Services		Net Change	Net Cost of Services		Net Change
	2006	2005	2005-06	2006	2005	2005-06
	\$	\$		\$	\$	
Instruction	1,552	1,405	10.46%	1,070	1,109	-3.52%
Support Services	451	615	-26.67%	428	615	-30.41%
Non-instructional programs	10	29	-65.52%	10	29	-65.52%
Other expenses	<u>267</u>	<u>84</u>	<u>217.86%</u>	<u>203</u>	<u>24</u>	<u>745.83%</u>
Totals	<u>2,280</u>	<u>2,133</u>	<u>6.89%</u>	<u>1,711</u>	<u>1,777</u>	<u>-3.71%</u>

- The cost financed by users of the District's programs was \$317,467.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$146,577.
- The net cost of governmental activities was financed with \$804,655 in property and other taxes and \$662,682 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$87,009 and expenses were \$88,513. The District's business type activities consist of the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, Terril Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 1,838,124, a six percent increase over last year's ending fund balances of \$1,729,884.

Governmental Fund Highlights

- The District's General Fund financial status remained stable this year. The District carefully monitors discretionary spending to avoid decreases in fund balances. This becomes more difficult every year due to state's decision to remove the budget guarantee.
- The Physical Plant and Equipment Levy (PPEL levy) is no longer levied as a result of the District using sales tax funds for these purposes.
- The Capital Projects fund increased slightly in the fiscal year ending June 30, 2006. This money is being used for many of the same purposes as the District's PPEL levy.

Proprietary Fund Highlights

The school nutrition fund required a capital contribution of \$9,000 from the General Fund this year.

BUDGETARY HIGHLIGHTS

The District's receipts were \$206,392 more than budgeted receipts, a variance of 9%. The most significant variance resulted from the District receiving more in miscellaneous revenue than originally anticipated. This was due to sharing with the Graettinger Community School District.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$1,515,384, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 20% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$86,852.

The original cost of the District's capital assets was \$2,057,522. Governmental funds account for \$2,007,409, with the remainder of \$50,113 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Land	198	197	-	-	198	197	0.51%
Buildings	823	754	-	-	823	754	9.15%
Furniture and equipment	<u>494</u>	<u>547</u>	<u>1</u>	<u>1</u>	<u>495</u>	<u>548</u>	<u>-9.67%</u>
Totals	<u>1,515</u>	<u>1,498</u>	<u>1</u>	<u>1</u>	<u>1,516</u>	<u>1,499</u>	<u>1.13%</u>

Long-Term Debt

The District has no long-term debt with the exception of early retirement packages.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- Declining enrollment and the effects of the removal of the 100% budget guarantee will require due diligence out the part of the administration and board of education.
- Sharing with Graettinger should allow the District to maintain its facilities without decreasing educational program.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Oleson, District Secretary/Treasurer, Terril Community School District, PO Box 128, Terril, IA 51364-0128.

Basic Financial Statements

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	368,677	167	368,844
Receivables:			
Property tax:			
Current year	14,939	-	14,939
Succeeding year	950,500	-	950,500
Income surtax - succeeding year	52,259	-	52,259
Due from other governments	45,819	-	45,819
Other receivables	36,280	-	36,280
Inventories	-	2,257	2,257
Capital assets, net of accumulated depreciation	1,515,384	733	1,516,117
Total assets	2,983,858	3,157	2,987,015
Liabilities			
Accounts payable	2,220	84	2,304
Payroll benefits payable	6,915	-	6,915
Deferred revenue:			
Succeeding year property tax	950,500	-	950,500
Federal programs	8,172	-	8,172
Long-term liabilities:			
Portion due within one year:			
Early retirement	58,104	-	58,104
Portion due after one year:			
Early retirement	119,823	-	119,823
Total liabilities	1,145,734	84	1,145,818
Net assets			
Invested in capital assets	1,515,384	733	1,516,117
Restricted for:			
Management levy	40,687	-	40,687
Student activities	8,316	-	8,316
Physical plant and equipment levy	125,281	-	125,281
Capital projects	40,780	-	40,780
Unrestricted	107,676	2,340	110,016
Total net assets	1,838,124	3,073	1,841,197

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:	<u>1,551,638</u>	<u>317,467</u>	<u>163,755</u>	<u>(1,070,416)</u>	<u>-</u>	<u>(1,070,416)</u>
Support services:						
Student services	994	-	-	(994)	-	(994)
Instructional staff services	44,685	-	-	(44,685)	-	(44,685)
Administration services	245,176	-	-	(245,176)	-	(245,176)
Operation and maintenance of plant services	39,870	-	23,132	(16,738)	-	(16,738)
Transportation services	<u>120,721</u>	<u>-</u>	<u>-</u>	<u>(120,721)</u>	<u>-</u>	<u>(120,721)</u>
	<u>451,446</u>	<u>-</u>	<u>23,132</u>	<u>(428,314)</u>	<u>-</u>	<u>(428,314)</u>
Non-instructional programs:						
Food service operations	<u>10,260</u>	<u>-</u>	<u>-</u>	<u>(10,260)</u>	<u>-</u>	<u>(10,260)</u>
Other expenditures:						
AEA flowthrough	63,577	-	63,577	-	-	-
Facilities acquisition and construction	116,438	-	54	(116,384)	-	(116,384)
Depreciation (unallocated)*	<u>86,400</u>	<u>-</u>	<u>-</u>	<u>(86,400)</u>	<u>-</u>	<u>(86,400)</u>
	<u>266,415</u>	<u>-</u>	<u>63,631</u>	<u>(202,784)</u>	<u>-</u>	<u>(202,784)</u>
Total governmental activities	2,279,759	317,467	250,518	(1,711,774)	-	(1,711,774)

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Expenses	Charges for Service				
\$	\$	\$	\$	\$	\$
Business type activities:					
Non-instructional programs:					
Nutrition and day care services	88,513	43,044	43,965	-	(1,504)
				(1,504)	(1,504)
Total	2,368,272	360,511	294,483	(1,711,774)	(1,713,278)
General revenues:					
Property tax levied for:					
General purposes			719,375	-	719,375
Management fund			85,280	-	85,280
Income surtaxes collected for:					
General purposes			52,758	-	52,758
Sales tax collected for:					
Capital outlay			150,497	-	150,497
Unrestricted state grants			662,682	-	662,682
Unrestricted investment earnings			14,814	-	14,814
Other			134,608	-	134,608
Total general revenue			1,820,014	-	1,820,014
Change in net assets			108,240	(1,504)	106,736
Net assets beginning of year			1,729,884	4,577	1,734,461
Net assets end of year			1,838,124	3,073	1,841,197

* This amount excludes the depreciation that is included in the direct expenses of the various programs

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	191,358	125,281	4,723	47,315	368,677
Receivables:					
Property tax:					
Current year	13,348	-	-	1,591	14,939
Succeeding year	865,500	-	-	85,000	950,500
Income surtax - succeeding year	52,259	-	-	-	52,259
Due from other governments	45,819	-	-	-	45,819
Other receivables	126	-	36,057	97	36,280
Total assets	<u>1,168,410</u>	<u>125,281</u>	<u>40,780</u>	<u>134,003</u>	<u>1,468,474</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	2,220	-	-	-	2,220
Accrued payroll and benefits	6,915	-	-	-	6,915
Deferred revenue:					
Succeeding year property tax	865,500	-	-	85,000	950,500
Succeeding year income surtax	52,259	-	-	-	52,259
Federal programs	8,172	-	-	-	8,172
Total liabilities	<u>935,066</u>	<u>-</u>	<u>-</u>	<u>85,000</u>	<u>1,020,066</u>
Fund balances:					
Reserved for capital projects	-	-	40,780	-	40,780
Unreserved	233,344	125,281	-	49,003	407,628
Total fund balances	<u>233,344</u>	<u>125,281</u>	<u>40,780</u>	<u>49,003</u>	<u>448,408</u>
Total liabilities and fund balances	<u>1,168,410</u>	<u>125,281</u>	<u>40,780</u>	<u>134,003</u>	<u>1,468,474</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (Exhibit C)	\$ 448,408
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities.	52,259
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,515,384
Long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.	
Early retirement	<u>(177,927)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,838,124</u></u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Non-major Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	772,133	-	150,497	85,280	1,007,910
Tuition	317,467	-	-	-	317,467
Other	97,163	12,780	54	20,050	130,047
State sources	811,290	-	-	104	811,394
Federal sources	61,546	7,376	-	-	68,922
Total revenues	<u>2,059,599</u>	<u>20,156</u>	<u>150,551</u>	<u>105,434</u>	<u>2,335,740</u>
Expenditures:					
Instruction:	<u>1,467,456</u>	<u>-</u>	<u>6,100</u>	<u>60,211</u>	<u>1,533,767</u>
Support services:					
Student services	994	-	-	-	994
Instructional staff services	44,685	-	-	-	44,685
Administration services	237,792	-	1,445	10,781	250,018
Operation and maintenance of plant services	123,190	-	6,457	15,883	145,530
Transportation services	112,735	-	-	7,986	120,721
	<u>519,396</u>	<u>-</u>	<u>7,902</u>	<u>34,650</u>	<u>561,948</u>
Non-instructional programs					
Food service operations	<u>9,000</u>	<u>-</u>	<u>-</u>	<u>1,260</u>	<u>10,260</u>
Other expenditures					
AEA flowthrough	63,577	-	-	-	63,577
Facilities acquisition and construction	-	7,376	109,062	-	116,438
	<u>63,577</u>	<u>7,376</u>	<u>109,062</u>	<u>-</u>	<u>180,015</u>
Total expenditures	<u>2,059,429</u>	<u>7,376</u>	<u>123,064</u>	<u>96,121</u>	<u>2,285,990</u>
Excess (deficiency) of revenues over (under) expenditures	170	12,780	27,487	9,313	49,750
Fund balances beginning of year	<u>233,174</u>	<u>112,501</u>	<u>13,293</u>	<u>39,690</u>	<u>398,658</u>
Fund balances end of year	<u>233,344</u>	<u>125,281</u>	<u>40,780</u>	<u>49,003</u>	<u>448,408</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ 49,750

*Amounts reported for governmental activities in the
statement of activities are different because:*

Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. 52,259

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 105,660	
Depreciation expense	<u>(86,400)</u>	19,260

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirements	(17,871)	
Compensated absences	<u>4,842</u>	<u>(13,029)</u>

Change in net assets of governmental activities (Exhibit B) \$ 108,240

TERRIL COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2006

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>43,044</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	31,631
Benefits	17,920
Services	758
Supplies	37,752
Depreciation	<u>452</u>
Total operating expenses	<u>88,513</u>
Operating (loss)	<u>(45,469)</u>
Non-operating revenues:	
Interest	104
Capital contributions	9,000
State sources	938
Federal sources	<u>33,923</u>
	<u>43,965</u>
Change in net assets	(1,504)
Net assets beginning of year	<u>4,577</u>
Net assets end of year	<u><u>3,073</u></u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of services	43,044
Cash payments to employees for services	(49,551)
Cash payments to suppliers for goods or services	<u>(31,765)</u>
Net cash provided by (used in) operating activities	<u>(38,272)</u>
Cash flows from non-capital financing activities:	
State grants received	938
Federal grants received	<u>28,388</u>
Net cash provided by non-capital financing activities	<u>29,326</u>
Cash flows from capital financing activities:	
Capital contributions	9,000
Cash flows from investing activities:	
Interest on investments	<u>104</u>
Net increase in cash and cash equivalents	158
Cash and cash equivalents beginning of year	<u>9</u>
Cash and cash equivalents end of year	<u>167</u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(45,469)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	452
Commodities used	5,535
Decrease in inventory	1,614
(Decrease) in accounts payable	<u>(404)</u>
	<u>(38,272)</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u>167</u>
Non-cash investing, capital and financing activities:	

During the year ended June 30, 2006, the District received federal commodities valued at \$5,535.

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

	Agency Funds		
	Flex Plan	DB Kids	Total
	\$	\$	\$
Assets			
Cash and pooled investments	483	561	1,044
Liabilities			
Other payables	<u>483</u>	<u>561</u>	<u>1,044</u>
Net Assets			
Reserved for special purposes	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	Agency Funds		
	Flex Plan	DB Kids	Total
	\$	\$	\$
Additions:			
Local sources:			
Miscellaneous	13,913	-	13,913
Total additions	13,913	-	13,913
Deductions:			
Support services:			
Other expenses	13,913	-	13,913
Total deductions	13,913	-	13,913
Change in net assets	-	-	
Net assets beginning of year	-	-	-
Net assets end of year	-	-	-

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Terril Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the City of Terril, Iowa, and agricultural area in Palo Alto, Dickinson, Emmett and Clay Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis. The District also contracts, as explained in Note 8, with the Graettinger Community School District to educate students in grades six through twelve.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Terril Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Terril Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Dickinson County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Physical Plant and Equipment Levy is used to purchase equipment (over \$500 per item) and for major repairs and improvements to buildings and grounds. It is funded primarily through a combination of property tax and income surtax.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise Fund and School Nutrition Fund. These funds are used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District in a custodial relationship.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures exceeded the amounts budgeted in the instruction and non-instructional programs functions.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>196,674</u>	<u>1,575</u>	<u>-</u>	<u>198,249</u>
Capital assets being depreciated:				
Buildings and improvements	1,027,123	100,744	-	1,127,867
Furniture and Equipment	<u>677,952</u>	<u>3,341</u>	<u>-</u>	<u>681,293</u>
Total capital assets being depreciated	<u>1,705,075</u>	<u>104,085</u>	<u>-</u>	<u>1,809,160</u>
Less accumulated depreciation for:				
Buildings and improvements	273,280	31,665	-	304,945
Furniture and Equipment	<u>132,345</u>	<u>54,735</u>	<u>-</u>	<u>187,080</u>
Total accumulated depreciation	<u>405,625</u>	<u>86,400</u>	<u>-</u>	<u>492,025</u>
Total capital assets being depreciated, net	<u>1,299,450</u>	<u>17,685</u>	<u>-</u>	<u>1,317,135</u>
Governmental activities, capital assets, net	<u>1,496,124</u>	<u>19,260</u>	<u>-</u>	<u>1,515,384</u>
Business type activities:				
Furniture and equipment	50,113	-	-	50,113
Less accumulated depreciation	<u>48,928</u>	<u>452</u>	<u>-</u>	<u>49,380</u>
Business type activities capital assets, net	<u>1,185</u>	<u>(452)</u>	<u>-</u>	<u>733</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				<u>86,400</u>
				<u>86,400</u>
Business Type activities				
Food service operations				<u>452</u>

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$46,348, \$44,006, and \$48,689 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$63,577 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Two-Way Whole Grade Sharing

The District has entered into a contract with Graettinger Community School District to complete the academic and extra-curricular needs of students in grades six through twelve. All regular education students in grades nine through twelve will attend the Graettinger Community School District. All regular education students in grades six through eight attend the Terril Community School District.

Required Supplementary Information

TERRIL COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,455,424	52,148	1,507,572	1,240,567	1,240,567	267,005
State sources	811,394	938	812,332	829,365	829,365	(17,033)
Federal sources	68,922	33,923	102,845	146,425	146,425	(43,580)
Total revenues	<u>2,335,740</u>	<u>87,009</u>	<u>2,422,749</u>	<u>2,216,357</u>	<u>2,216,357</u>	<u>206,392</u>
Expenditures:						
Instruction	1,533,767	-	1,533,767	1,479,126	1,479,126	(54,641)
Support services	561,948	-	561,948	658,400	658,400	96,452
Non-instructional programs	10,260	88,513	98,773	98,250	98,250	(523)
Other expenditures	180,015	-	180,015	307,635	307,635	127,620
Total expenditures	<u>2,285,990</u>	<u>88,513</u>	<u>2,374,503</u>	<u>2,543,411</u>	<u>2,543,411</u>	<u>168,908</u>
Excess (deficiency) of revenues over (under) expenditures	49,750	(1,504)	48,246	(327,054)	(327,054)	375,300
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	49,750	(1,504)	48,246	(327,054)	(327,054)	375,300
Balance beginning of year	<u>398,658</u>	<u>4,577</u>	<u>403,235</u>	<u>383,417</u>	<u>383,417</u>	<u>19,818</u>
Balance end of year	<u>448,408</u>	<u>3,073</u>	<u>451,481</u>	<u>56,363</u>	<u>56,363</u>	<u>395,118</u>

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures exceeded the amount budgeted in the instruction and non-instructional program functions. The District did not exceed its General Fund unspent authorized budget.

Other Supplementary Information

TERRIL COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

	Management	Student Activity	Total
	\$	\$	\$
Assets			
Cash and pooled investments	39,096	8,219	47,315
Property tax receivable:			
Current year	1,591	-	1,591
Succeeding year	85,000	-	85,000
Other receivables	-	97	97
Total assets	125,687	8,316	134,003
Liabilities and Fund Balances			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	85,000	-	85,000
	85,000	-	85,000
Fund balances:			
Unreserved fund balance	40,687	8,316	49,003
	40,687	8,316	49,003
Total liabilities and fund balances	125,687	8,316	134,003

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2006

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	85,280	-	85,280
Other	2,872	17,178	20,050
State sources	<u>104</u>	<u>-</u>	<u>104</u>
Total revenues	<u>88,256</u>	<u>17,178</u>	<u>105,434</u>
Expenditures:			
Instruction:	45,516	14,695	60,211
Support services:			
Administration services	10,781	-	10,781
Plant operation and maintenance	15,883	-	15,883
Student transportation	7,986	-	7,986
Non-instructional programs:			
Food service operations	<u>1,260</u>	<u>-</u>	<u>1,260</u>
Total expenditures	<u>81,426</u>	<u>14,695</u>	<u>96,121</u>
Excess (deficiency) of revenues over (under) expenditures	6,830	2,483	9,313
Fund balances beginning of year	<u>33,857</u>	<u>5,833</u>	<u>39,690</u>
Balance end of year	<u><u>40,687</u></u>	<u><u>8,316</u></u>	<u><u>49,003</u></u>

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Drama	443	-	-	443
Athletics	(986)	4,289	879	2,424
Boys Basketball	-	873	2,552	(1,679)
Uniforms Fund RSRJ	49	-	49	-
Girls Basketball	-	1,581	1,581	-
Girls Volleyball	-	498	498	-
Girls Softball	-	359	1,104	(745)
MS Track	-	340	340	-
Yearbook	-	-	-	-
Middle School Field Trips	3,450	2,489	2,944	2,995
Music Fund Raiser	2,740	-	-	2,740
Student Council	-	6,749	4,748	2,001
Cheerleaders	137	-	-	137
	<u>5,833</u>	<u>17,178</u>	<u>14,695</u>	<u>8,316</u>
Total	<u>5,833</u>	<u>17,178</u>	<u>14,695</u>	<u>8,316</u>

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,007,910	1,095,780	1,179,848	1,184,675
Tuition	317,467	78,458	52,315	80,404
Other	130,047	100,931	90,826	102,719
Intermediate sources	-	48	413	-
State sources	811,394	737,675	682,192	671,212
Federal sources	68,922	76,147	98,026	96,339
Total revenues	<u>2,335,740</u>	<u>2,089,039</u>	<u>2,103,620</u>	<u>2,135,349</u>
Expenditures:				
Instruction:	1,533,767	1,388,606	1,374,477	1,421,266
Support services:				
Student services	994	30,246	15,119	14,039
Instructional staff services	44,685	10,783	29,658	25,134
Administration services	250,018	214,077	182,554	171,362
Operation and maintenance of plant	145,530	114,742	118,167	93,032
Transportation services	120,721	183,805	128,703	97,045
Non-instructional programs:				
Food service operations	10,260	28,861	16,440	12,376
Other expenditures:				
Facilities acquisition and construction	116,438	343,903	128,982	7,464
Long-term debt:				
Principal	-	-	275,000	-
Interest and other charges	-	-	11,440	12,650
AEA Flowthrough	63,577	60,459	61,830	64,215
Total expenditures	<u>2,285,990</u>	<u>2,375,482</u>	<u>2,342,370</u>	<u>1,918,583</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Terril Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Terril Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 3, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Terril Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Terril Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed immaterial instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Terril Community School District and other parties to whom Terril Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Terril Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

January 3, 2007

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

06-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

06-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

06-II-B Certified Budget - Expenditures for the year ended June 30, 2006, exceeded the certified budget amounts in the instructional and non-instructional program functions.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

06-II-C Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

06-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

- 06-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.
- 06-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 06-II-G Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- 06-II-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- 06-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 06-II-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.